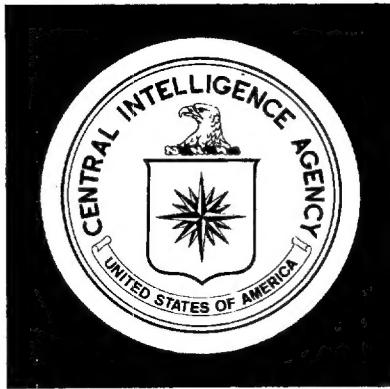


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*Prospects for Foreign Workers
in Western Europe*

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Foreword

This special study examines the political and economic repercussions of growing unemployment among foreign workers in Northern Europe. Although the number of "guest workers" has fluctuated markedly in the past as market conditions have changed, the current world recession has generated unusually severe problems in both labor-importing and labor-exporting countries as the northern governments try to reduce their foreign worker communities. This memorandum analyzes (a) the political and social problems stemming from the inability of the northern countries to assimilate those foreign workers who are indispensable to their economies and (b) the negative impact of the return of surplus migrant workers on Southern Europe, where several governments are struggling to maintain political stability.



Prospects for Foreign Workers
in Western Europe

The position of the 8 million migrant workers in Western Europe continues to deteriorate under the impact of prolonged recession. The labor-importing northern countries plan further cutbacks in their foreign work forces in the months ahead, while the labor-exporting southern countries face intensified economic and political problems in absorbing returning workers. As yet, the twin threats of political backlash against workers still in the North and of radicalism among repatriated laborers in southern countries have not reached serious proportions.

Economic recession has boosted unemployment in Northern Europe -- West Germany, France,* the United Kingdom, Austria, Switzerland, Benelux, and Sweden -- to record levels. The mild economic upturn expected toward the end of 1975 will *not* reduce joblessness for some time. Thus northern governments will maintain restrictions on the employment of foreigners to protect indigenous workers at least through mid-1976.

The return from the northern countries of several hundred thousand migrant workers will add sharply to unemployment and to balance-of-payments problems in Southern Europe over the next 24 months. In 1975 the total increase in the number of jobless workers attributable to the falling demand for foreign labor in Northern Europe is expected to range from 1% to 2% of the labor force in Turkey, Italy, and Spain and from 3% to 5% in Yugoslavia, Greece, and Portugal. All major labor-supplying countries will experience a decline this year in worker remittances, a key source of foreign exchange.

* For the purpose of this analysis, France is considered a northern, highly industrialized European country.

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of the Office of Economic Research,
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Despite these problems, most southern governments are not taking major steps to deal specifically with the returning guest workers. These workers have traditionally shunned political activism. Now, however, Communists and other extremist groups, particularly in Italy, Spain, and Portugal, may meet with some success in their proselytizing. A more prolonged recession than we currently anticipate probably would force the southern governments to counter the appeal of these extremist groups with more decisive programs to curb unemployment and encourage job-creating foreign investment.

Host governments in the North for the most part have not been faced with serious protests by unemployed guest workers, although small demonstrations have occurred in Paris and some industrial centers in West Germany. Many jobless migrants have simply returned home. Others are able to subsist temporarily on welfare benefits and unemployment pay. Many of those who have not lost their jobs are reluctant to become politically active for fear of triggering further restrictions.

Guest workers will continue to press host governments for an improvement in their living and working conditions. But with budgets tight, northern governments are unlikely to implement EC recommendations to upgrade housing and vocational and language training for the migrants. Over the long run, this neglect may prompt the guest workers -- disenfranchised and underrepresented in trade unions -- to resort to political protest. Native workers in Northern Europe, who had been upgraded to more highly paid and prestigious jobs, are now sliding back down the job ladder. Their resentment against foreigners in the low-end jobs will rise the longer their governments fail to take effective antirecession measures.

DISCUSSION

The Importance of Migrant Labor

1. Over the past 25 years, the industrialized countries of Northern Europe have advanced to unprecedented levels of economic prosperity. Millions of foreign workers, primarily from less-prosperous Southern Europe, have played an important role in this economic growth by filling burgeoning demand for unskilled labor. These laborers – the so-called guest workers – began flocking to the manpower-short northern cities in the mid-1950s in search of employment and higher wages. Their presence supported economic expansion in Northern Europe, while the earnings that they sent home boosted personal incomes and provided much-needed funds for investment in Southern Europe.

2. The foreign component of the North European labor force has risen sharply in the past 15 years. In West Germany and Austria, for example, the proportion of foreign workers in the labor force rose from less than 1% in 1960 to 11% and 7%, respectively, in 1974. Switzerland has relied heavily on foreign labor throughout the postwar period, with migrant workers accounting for roughly one-fifth of the labor force.

3. The guest workers -- presently close to 8 million -- have functioned as a safety valve, their numbers expanding and contracting in response to market conditions in Northern Europe. In expansionary periods, easy communications and the lure of high wages – together with provisions for free movement of labor within the European Community – have attracted an influx of immigrant labor. In times of recession, the lack of work and tighter immigration controls have caused a sizable flow of labor back to Southern Europe. The economic slowdown in West Germany and neighboring countries in 1966-67, for example, led to the rapid departure of more than 400,000 guest workers from the North European labor market.

Social Problems

4. For a number of reasons, including shifting market conditions, the guest workers have not been integrated into the domestic labor forces or the social fabric of Northern Europe. Studies have shown that only a small percentage desire to resettle permanently. Most expect to return to the homeland, after profiting from the experience, skills, and wages earned abroad. One exception to this pattern is the United Kingdom, where more than 80% of the foreign labor comes from Ireland and English-speaking countries in the Commonwealth and where many settle permanently.

5. Discrimination and prejudice, present in varying degrees in the labor-importing countries, discourage permanent resettlement and make social adjustments difficult. Most guest workers have been recruited essentially to fill only the unskilled and semiskilled jobs vacated by indigenous workers moving up the economic ladder. Vocational training in many cases is inadequate, although some firms with government support – particularly in West Germany and Switzerland – offer high-quality courses in industrial mechanics. Language instruction, except in Sweden or in France where government-paid instructors are readily available, is even more haphazard and is often left to private associates or individuals.

6. The educational needs of those guest workers who bring their families pose especially serious social problems, given the strong allegiance of Mediterranean peoples to their cultural heritages. Because most governments in Northern Europe have refused to finance full-time foreign schools on the grounds that this would hinder integration, most immigrant children struggle in the local educational systems to learn the new language, often falling behind their age groups.

7. As for housing, most employers are, at least initially, required by law to provide adequate accommodations for immigrant families. The most notable exception is again the United Kingdom, where government policy – reflected in the Commonwealth Immigration Acts of 1962 and 1965 – has been to discourage immigration. Publicly financed hostels for the large number of single guest workers are common in France and West Germany. In the private housing market, guest workers often encounter discrimination and find themselves living in substandard conditions.

8. The guest workers are thus essentially a lumpen proletariat, i.e., an uprooted class that takes on the most menial tasks. Their presence has made it practical for the indigenous labor force to abandon low-end jobs and to aspire to higher income and social status. By making indigenous workers more receptive to the idea of individual achievement and to other middle-class attitudes, rather than collective advancement through class struggle, the guest workers conceivably have contributed a moderating political influence in Northern Europe.

9. Given their low status and poor living conditions, resentment against the guest workers becomes acute only in times of economic recession and unemployment. Switzerland, where this resentment is particularly deep-seated, is an exception. The government has for several years been pressed by the trade unions and two distinctly xenophobic political parties to limit the number of resident

foreigners. Many Swiss have expressed fears of *Ueberfremdung* (inundation by aliens) and have complained that the high concentration of foreigners is changing the basic character of the country.

Declining Demand for Foreign Labor

10. The global economic recession of the last 18 months has led to widespread layoffs in most West European countries and has sharpened resentment against the migrant workers. Unemployment (seasonally adjusted) currently exceeds 6% of the labor force in Belgium and 5% in West Germany and the Netherlands. Joblessness is approaching 4% in Great Britain and France and nearing 10% in Denmark. These unemployment levels -- approximately 80% above mid-1974 -- are extremely high by European standards.

11. In response, most governments are taking steps to protect their indigenous workers:

- West Germany, France, Belgium, Denmark, and Luxembourg have banned the recruitment of foreign labor from outside the European Community.
- West Germany and France have stiffened penalties for hiring illegal immigrants or smuggling them into the country.
- The EC Commission is urging all member states to tighten and coordinate measures to restrict the influx of illegal migrants.
- Bonn has directed West German labor offices to give preference to German nationals in filling job vacancies. Employers seeking to hire foreigners must demonstrate that they are unable to find native Germans to fill the job.
- Austria intends to establish both provincial and national quotas for foreign workers and to refuse work permits when employment of nationals is threatened.
- The Netherlands has put a ceiling on the immigration of foreign workers and the number each firm may hire.
- Switzerland, despite an exceptionally low unemployment rate, has reduced the number of work permits issued annually and has eliminated exemptions granted for foreign workers in hospitals and schools and on farms.

12. Legal impediments to the recruitment of foreign workers, combined with the high concentration of foreigners in those industries hardest hit by the recession -- construction, automobile manufacture, and tourism -- have sharply reduced the demand for foreign labor. Unemployment among resident foreign workers is skyrocketing, rising faster in most countries than the jobless rates for nationals. In West Germany, for example, the unemployment rate for foreigners was 6.9% in May 1975, compared with 2.2% a year earlier. The corresponding rates for German nationals were 4.1% and 2.0%.

13. The growing scarcity of jobs has sparked the return of hundreds of thousands of migrant workers to homelands already beset with severe economic and political problems. Moreover, the influx of foreigners to the northern labor-importing countries has slowed considerably. During the first three-quarters of 1974, the number of third country migrant workers entering the European Community dropped by nearly two-thirds from the same period a year earlier. The number of foreign workers in West Germany -- the largest employer of guest workers in Western Europe -- has declined by more than 400,000, or nearly 16%, since late 1973. Both Switzerland and Austria have reduced their foreign work force by 11% over the same period.

Political Implications for Northern Europe

14. During the past year, the European Community has recommended an action program to improve the living conditions of the guest workers and integrate them into the body politic. Although the program consists primarily of recommendations to member governments, there are plans to use the European Social Fund -- a \$400 million pool geared principally to retraining displaced workers -- to finance better vocational and language training and to establish educational facilities to help the guest worker and his family to adjust to their new cultural environment. The EC Commission recommends that the system of social security benefits and privileges for guest workers from EC countries be made more comprehensive and uniform, and it urges that these same benefits be gradually extended to workers from non-EC countries. The Commission also recommends that all guest workers be granted full voting rights in local elections by 1980; so far only Sweden, a non-EC member, has acted to give the immigrant workers the vote in local elections, beginning next year.

15. Few governments seem prepared to do much for the guest workers, at a time when budgets are tight. Indeed, Bonn is exploring the possibility of limiting the privileges enjoyed by guest workers from EC countries and reducing social

security benefits for all foreign laborers. Some governments may seek to shift more of the financial burden to the employers. The French government is reviewing its overall policy with this goal in mind.

16. The trade unions also have a spotty record. The *Deutscher Gewerkschaftsbund*, West Germany's major labor organization, recently recommended the retention of the ban on migrant laborers from non-EC countries and asked for an increase in the tax allowance for the guest workers' dependents remaining in their native lands to prevent a further influx of foreign children into the Federal Republic. Some unions have offered little more than verbal opposition to some rather heavyhanded measures of the Federal Labor Office to send the guest workers home. In a few cases, employers have shown more consideration -- defending guest workers whose work permits have expired and distributing unauthorized compensation pay. Most nonunion guest workers, however, are essentially defenseless once they lose their work permits. Even those holding union membership lack political clout because they are underrepresented in the higher echelons.

17. Although small demonstrations by unemployed guest workers have occurred in Paris and some industrial centers in West Germany, the northern governments, for the most part, have not been faced with serious protests. Many of the unemployed foreign laborers have simply returned home; others are able for a time to subsist on social welfare benefits and unemployment pay. Many of those who have not lost their jobs are evidently reluctant to become politically active for fear of triggering further restrictions.

18. Undercurrents of prejudice or racial feelings undoubtedly exist and may cause voters in some countries to support parties that appear unreceptive to the arrival of more immigrants. Nevertheless, political parties in Northern Europe have not been generally inclined to exploit the guest worker problem as a campaign issue:

- Despite the history of racist sentiment in West Germany and Austria, no xenophobic political movements have emerged.
- In Britain, the debate about foreigners fanned a few years ago by conservative leader Enoch Powell has abated. The most notable antiforeign party, the National Front, in the two parliamentary elections last year, averaged only 3.1% of the vote in the constituencies in which it ran candidates.

- In France, prejudice against immigrant workers is primarily directed at the Algerians, who account for 24% of the foreign laborers. Tensions are particularly strong in the area of Marseilles and in industrial centers in the North. President Giscard is making efforts to improve working conditions for Algerian immigrants, but local animosity has a long history and persists even in relatively good times.
- Violent confrontations have erupted periodically between Dutch citizens and Turkish guest workers, without taking on political overtones.

19. Only Switzerland, where foreigners make up nearly 17% of the population, seems to have the potential for serious political troubles. In particular, the Italian immigrant laborers are seen as a threat to the German-French-Italian ethnic balance of the country. Two parties – the National Action Party and the Republican Movement – have since 1970 periodically submitted proposals to reduce substantially the number of foreign nationals living and working in Switzerland. The last proposal, sponsored by James Schwarzenbach's National Action, called for a reduction in foreign residents by 50%. The Swiss, well aware of how heavily their economy depends on foreign labor, rejected the proposal in a national referendum last October by nearly 70%. In 1970, however, National Action garnered 46% of the vote in a referendum that called for limiting the number of foreign nationals to 10% of the population in each canton and 25% in Geneva Canton. This support is astonishing in a country where unemployment among the nationals seldom numbers more than a few hundred persons.

20. Schwarzenbach's near success in 1970 prompted the federal government to launch its own "stabilization program" by drastically reducing the number of work permits issued to foreigners. Despite these measures, the total number of non-Swiss residents continues to increase – largely through births and the admittance of families of seasonal workers.

21. Schwarzenbach now heads the Republican Movement, and his party has a petition before the government requesting that foreign nationals be limited to 12.5% of each canton's population. For the moment, Schwarzenbach is biding his time, using the petition as a lever to get Bern to adopt tougher restrictions.

22. The Swiss example notwithstanding, the willingness of the northern countries to employ Mediterranean labor has contributed to the sense of community in Western Europe. The provision in the Treaty of Rome granting Italian guest workers free access to job opportunities in the EC has been a crucial factor in

binding Italy in close cooperations with its Community partners. The rotation of laborers from other Mediterranean countries has served to draw some of the most backward European regions closer to those northern countries in the vanguard of postwar political and economic development. This process is particularly relevant today for Spanish and Portuguese leaders who are struggling to find new principles for organizing their societies.

Economic Implications for Labor-Supplying Countries

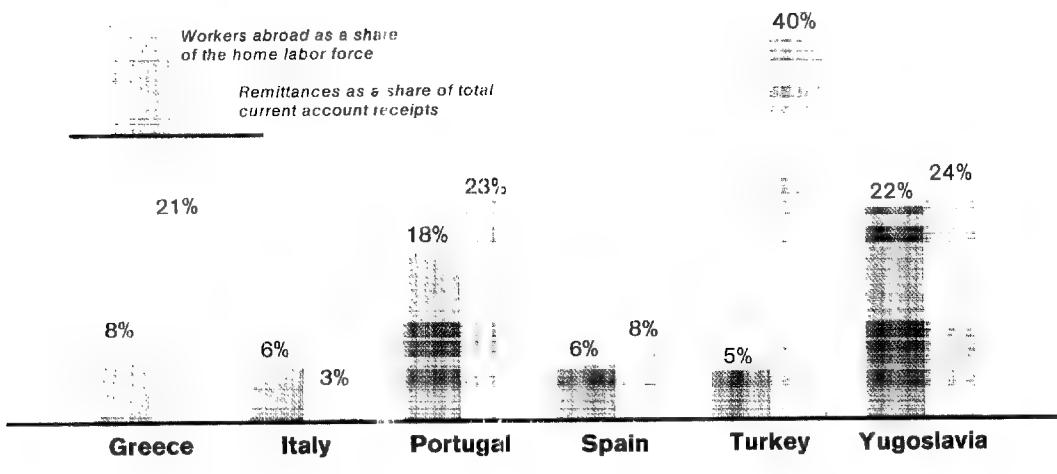
23. Northern Europe's present inability to absorb the surplus manpower of other countries is a matter of particular concern to Turkey, Greece, Yugoslavia, Italy, Spain, and Portugal. The exodus from these countries of tens of thousands of migrant workers annually during the last decade has considerably eased strains on domestic labor markets and has kept unemployment down. Workers abroad currently equal approximately one-fifth of the domestic labor force in Yugoslavia and Portugal (see Figure 1). The corresponding shares for Turkey, Greece, Italy, and Spain range from 5% to 8%.

24. The declining demand for foreign workers in Northern Europe has contributed to a pronounced deterioration of labor market conditions in southern countries. Unemployment has climbed to 15% of the labor force in Turkey, compared with an average rate of 12% in 1973. Yugoslavia, which estimates that more than 100,000 workers have already returned home from jobs in Western Europe, reports a 19% increase in joblessness over the last year to a current rate of 10%. Unemployment is also on the rise in Italy, Greece, Portugal, and Spain.

25. The impact of rising joblessness on incomes is particularly acute in Turkey, which has no formal unemployment compensation scheme to assist laid-off domestic workers or those returning from abroad. Greece, Italy, Yugoslavia, Spain, and now Portugal provide benefits to workers laid off at home. Only in Italy, however, do returning workers from abroad qualify for assistance.

26. A marked reduction in workers' remittances has accompanied higher jobless rates in most labor-supplying countries, compounding balance-of-payment difficulties and adding to a squeeze on family income. Worker remittances usually constitute nearly half of Turkey's current account receipts and are a primary source of foreign exchange for Portugal, Yugoslavia, and Greece. After years of steady growth, remittances declined in 1974 by an estimated 19% in Spain, 16% in Italy, 12% in Greece, and 9% in Portugal (see Figure 2). Remittances to Turkey and Yugoslavia continued to rise in 1974, although at a much lower rate than in

Figure 1

Southern Europe: The Importance of Foreign Workers to Labor-Exporting Countries

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preceding years. The general decline in remittances to South European countries coincided with widening trade deficits, caused in large part by the skyrocketing cost of imported oil. The result has been substantial current account deficits in most of these countries, with Italy experiencing the most severe payments squeeze.

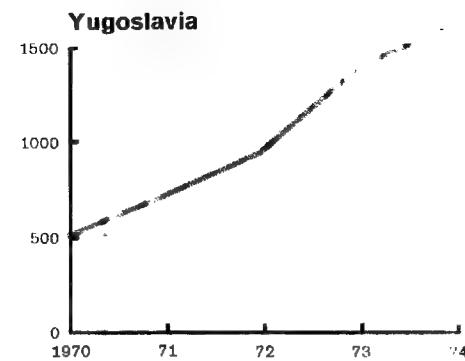
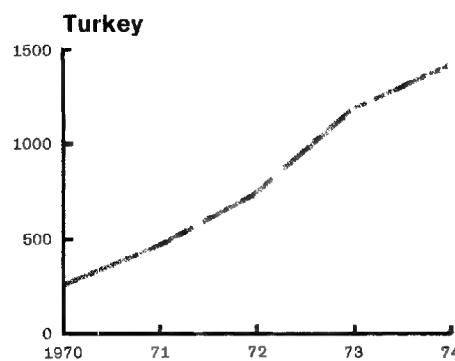
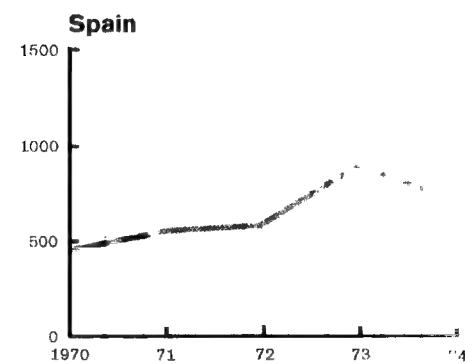
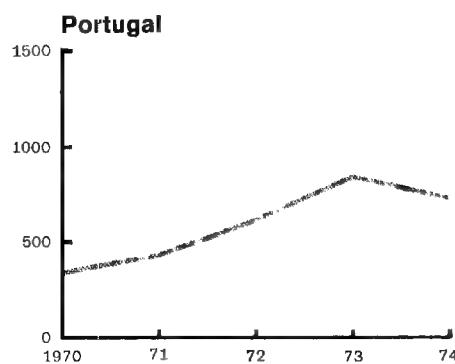
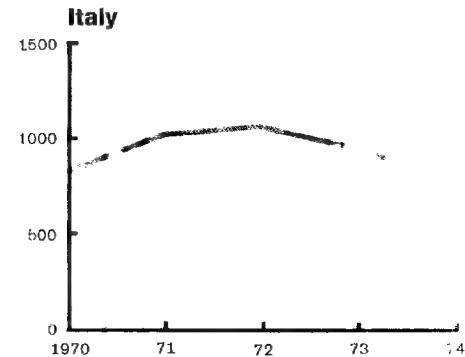
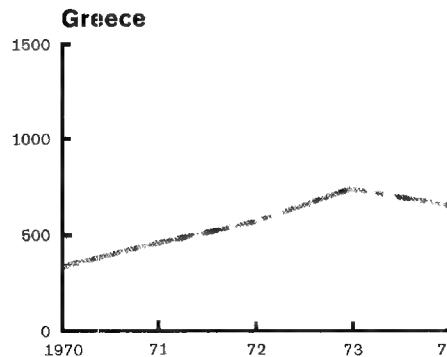
Political Implications for Southern Europe

27. The flow of surplus labor to Northern Europe has provided a safety valve for South European countries whose social and political problems might otherwise have been aggravated by additional unemployment and underemployment. Whatever their political coloration, all the governments in Southern Europe are now concerned that the return of guest workers adds to the growing pool of unemployment. Governments worry, especially in Spain and Portugal, that the returnees will gravitate to right- or left-wing groups that promise them jobs.

Degree of Radicalism

28. There is little solid information indicating the degree of radicalism among the returning guest workers. Certainly, in many cases, repatriated laborers display considerable individualism and enterprise. This is particularly true of Turkish guest workers, many of whom plan to invest their nest egg in a small business or trade

Figure 2
Southern Europe: Workers' Remittances from Abroad
Million US \$



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back home. About one in ten presently working in West Germany invests his savings in business or industrial projects designed to create more jobs in Turkey. Nearly 7,000 guest workers in West Germany are providing funds for one specific project -- the construction of a large cement factory in central Anatolia. This conservative ethos makes most Turkish migrants unresponsive to Communist propaganda. The Communist Party is outlawed in Turkey and seems to have little success in proselytizing among workers living abroad.

29. The exposure of Yugoslavs to the dynamic pace of life in the capitalist countries of Northern Europe over the past 15 years or so has not posed any detectable ideological-political threat to the Yugoslav Communist system. There is no evidence that the 100,000 Yugoslav workers who returned to their homeland last year have become politically active in ways unacceptable to the Communist leaders or that they have made common cause with the occasional dissidence existing among national minorities or youth. The absence of radicalism or antiregime activity among Yugoslav guest workers is all the more surprising because West Germany and Austria have been the havens since the war of many anti-Communist emigres who have tried with only limited success to enlist the support of guest workers.

30. Communist parties from the other four labor-supplying countries have organizations in the North operating among the guest workers. Italian, Greek, and Spanish Communists are active in West Germany. Reliable figures are rare, but West German security officials reported two years ago that these three groups collectively had about 30,000 adherents -- less than 5% of the migrant laborers from these three countries. A nationalist spirit is a strong characteristic of the Spanish Communists. This active party, for example, sponsored an anti-Franco rally with the Swiss Communists last June in Geneva for Spanish guest workers throughout Northern Europe. In recent months, the exiled Spanish Communist party, which operates out of Paris, has been aggressive in recruiting additional supporters. In response, alarmed Social Democrats in West Germany have thrown their support behind the Spanish Socialist Party, including assistance to win the allegiance of the guest workers.

31. The Portuguese Communists -- traditionally far more pro-Soviet than the Spanish Communists -- propagandized among the some 800,000 Portuguese residents in France for years before returning to the political scene in Lisbon last year. These operations are undoubtedly continuing, but their impact appears to be limited. The Portuguese Communist Party is banned in France, and its estimated

strength last year was less than one thousand members. Friction has traditionally marked relations between the Portuguese and Spanish Communists, and we have no evidence they are cooperating in proselytizing among guest workers in France.

Moves by Southern Governments

32. Italian guest workers seem to have been the most successful in attracting the attention of government officials. An estimated 50,000 migrant workers had returned to Italy by last March, and the expectation that their ranks would double by midyear has led Italian political leaders to take a serious view of the problem. In early March, the Ministry of Foreign Affairs convened a six-day conference on the problems of Italian migrant workers, the first such meeting in more than 50 years. It was attended by representatives of Italian migrant workers, trade unions, and political parties as well as representatives from several foreign countries and international organizations.

33. Prominent among the complaints of migrant workers were

- the lack of adequate schooling abroad, especially in the Italian language;
- poor service to migrants by the Italian consular corps;
- virtual disenfranchisement, since migrants must return to Italy in order to vote; and
- the inability of returning guest workers to draw on the wage supplement fund, which is reserved for those on reduced hours rather than those without jobs.

34. Foreign Minister Rumor gave the delegates a "moral commitment" to take action on most of the problems, and some steps including doubling the budget for migrant affairs have already been taken. The voting question, however, is likely to remain a sore point. Only about 10% of the migrant workers return to Italy to vote, and not much is being done to raise the figure. The government is giving no consideration to arranging for absentee balloting.

35. Both the Italian left and the right target returning workers for recruitment. Given the low participation by migrants in elections, these efforts promise only small success. Among those who choose to return home permanently, on the other hand, resentment against the Italian government for its lack of support

may take a political form. If the political atmosphere of the conference in March is any guide, the Socialists and the Communists are in a better position than the Italian right to proselytize among the permanent returnees.

36. The other governments in the labor-supplying countries have moved slowly in addressing the guest workers' problems. Ankara and Belgrade have attempted to find other markets for their surplus labor. Libya has reportedly agreed to accept a few thousand Turkish workers and may accept more at a later date. Turkish leaders are evidently allowing their concern over unemployment to outweigh concern that the political and religious character of the Libyan regime may influence Turkish workers. Czechoslovakia, with its low birth rate, has agreed to import 2,000 Yugoslavs for its construction and textile industries.

37. Madrid, primarily concerned over potential unrest among the many young Spaniards who would normally be leaving for jobs abroad, is giving higher policy priority to maintaining high employment than to curbing inflation. The Portuguese military leaders are preoccupied with other aspects of their faltering economy but have taken some steps to increase the disposable income of Portuguese working abroad. A recent government decree allows guest workers to withdraw up to \$4,000 from their savings accounts, and government officials have negotiated a 40% reduction in commercial air fares to several labor-importing countries in the North. During his visit to Paris in early June, President Costa Gomes unsuccessfully asked French leaders to improve social security benefits for Portuguese guest workers and lift the ban on migrant laborers from non-EC countries.

Outlook -- The North

38. The recession in the major developed countries is bottoming out, with a mild upturn in the cards beginning toward the end of the year. Because employment trends lag behind overall economic performance, joblessness will persist at high rates long into 1976, especially among guest workers. This condition will cause a continuing decline in the number of guest workers in the North during the whole of 1975. West Germany, for example, expects its guest worker population to decline by another 180,000, or 8%, by yearend 1975 from the yearend 1974 level of 2,180,000. The decline in the guest worker population should gradually moderate in 1976. Northern governments almost certainly will retain administrative measures aimed at discouraging new inflows of southern labor, at least until late in the year.

39. Over the longer term, the demand for foreign labor should expand as the North European economies recover. Even under the assumption that future economic growth rates will be below the trend of the postwar period, a doubling of Western Europe's foreign work force by 1990 still appears feasible given present demographic and labor force trends in the North. For example, West Germany's domestic labor force and population have been declining for several years. But the Federal Labor Office estimates that 1.4 million more jobs will be available in 1990 than existed in 1972. Domestic work forces are also declining or stagnating in other major labor-importing countries, suggesting a future tightening of labor markets and an increasing demand for supplementary foreign labor.

40. Guest workers by and large have not been a major political or social problem for the North in periods of economic expansion. This basically positive host-guest relationship will not necessarily continue indefinitely. Short-term annoyances may become long-term grievances. Guest workers, after all, are an island of alien culture in the northern body politic. The longer they are needed in large numbers to sustain economic growth, the more government and trade union officials in the northern countries will have to face up to the social and political problems resulting from their presence.

41. Trade union leaders will have to deal with the prospect that the guest workers no doubt will increase their demands for vocational assistance and greater job protection. Resentment among the guest workers toward the trade union leaderships for their indifference during the current recession is unlikely to disappear. It may increase if guest workers remain underrepresented in the higher elective positions inside the unions. As the number of indigenous workers levels off or declines, the growing economic importance of the guest workers may increase their political leverage, adding weight to demands for more tangible assistance in future economic slowdowns.

42. The host governments, for their part, will have to consider seriously the implications of allowing a sizable segment of their labor forces and resident populations to remain indefinitely disenfranchised and unassimilated. Although there are few signs that this lumpen proletariat has become politicized in a radical direction, the possibility cannot be excluded in the long run. Stated broadly, the question is how to raise the subproletariat out of its low estate. Except for Sweden, we doubt that the host governments can be induced in the near future to extend the vote to the guest workers or make it easier to obtain citizenship. Antiforeign movements and conservative parties in some northern countries will always be irritants in the situation. Open hostility from these quarters is likely to strengthen the guest workers' political consciousness.

Prospects in the South

43. While the problems connected with the guest workers in the North appear manageable, the economic difficulties in the labor-supplying countries are more serious, at least in the short run. The return of migrant workers and the accompanying drop in workers' remittances come at a particularly difficult time for the countries of Southern Europe. Crippling oil bills, domestic political uncertainties, and widespread recession combined to prevent normal economic growth and to raise unemployment throughout the region last year. The economic outlook for the next year is bleak -- a continuation of unemployment, inflation, dwindling foreign reserves, and lackluster investment. None of the countries except Turkey is likely to expand gross national product by more than 3%; Italy faces a small decline in output.

44. The reduction in remitted earnings is particularly serious, aggravating the already difficult balance-of-payments problem of the southern countries and limiting growth in disposable incomes. All major labor-supplying countries will experience a decline in remittances in 1975. Turkish officials, for example, estimate that remitted earnings could drop as much as 30% this year. While the decline in remittances should level off in 1976, they will hardly regain 1973 levels for several years.

45. The return of workers from abroad, combined with a reduction in the amount of surplus labor normally siphoned off through migration, will also accelerate the rise of unemployment. In 1975 the total increase in the number of available workers attributable to the falling demand for foreign labor in Western Europe is expected to range from 1% to 2% of the labor force in Turkey, Italy, and Spain, and from 3% to 5% in Yugoslavia, Greece, and Portugal. Average jobless rates are expected to range from 4% to 15%.

46. Despite these problems, most governments in the labor-supplying countries have not taken major steps to deal specifically with the returning guest workers. These workers have not as yet returned in large enough numbers to create an overriding sense of urgency or an immediate political threat. As long as the returning workers shun political activism as they have in the past, most governments in Southern Europe will probably not feel compelled to take steps beyond existing relief programs. Furthermore, the mild economic upturn expected in the North -- and the ultimate reduction of unemployment, perhaps late in 1976 -- may reduce the sense of urgency; the governments feel that foreign labor will begin to be in demand again and that worker remittances eventually will resume their upward trend.

47. Prolongation of the recession in the North, on the other hand, would force the southern governments to address the guest worker problem more directly than they have so far. Unemployed migrant workers and jobless youth, who in normal times might travel north for work, have undoubtedly joined the ranks of the discontented and would be increasingly inclined toward political protest. Even in this case, however, serious social or political unrest among former or potential guest workers would be only one facet of a general disruption in the South. The interdependence of the northern and southern economies means that a prolonged recession in the North would ultimately have a severe impact on the South quite apart from the guest worker question.

48. In the long run, the process of industrialization in these Mediterranean countries will be a crucial factor in determining what happens to guest workers. The rate of population increase in the southern countries is much higher than in the North, suggesting that an excess supply of labor will be available for many years. The South can absorb this excess only by expanding its industrial plant. Capital investment from the North has and can continue to assist this process. Northern governments that encourage such investment will be signaling a genuine commitment to deal with the problem of surplus labor at its roots and to reduce the pressures to employ these people beyond the capacity of the northern economies. West German and Yugoslav officials have discussed ways to recycle funds earned by guest workers back to Yugoslavia to finance the construction of industrial projects designed and built by German firms. These kinds of joint enterprises, coupled with private investment from the North, may be the best means for absorbing Southern Europe's surplus labor and for relieving the social and political pressures connected with the presence of guest workers in the North.

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